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C O N F I D E N T I A L SECTION 01 OF 02 SANAA 001338

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E.O. 12958: DECL: 05/17/2015

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SUBJECT: ADEN CONTAINER TERMINAL TENDER: ROYG ANGLES FOR MORE MONEY

REF: SANAA 106

Classified By: Ambassador Thomas C. Krajeski for reasons 1.4 (b) and (d).).

**¶1.** (C) Summary. The tendering process for the Aden Container Terminal was delayed this month when the ROYG's High Tendering Committee decided not to award the tender at the self-imposed deadline. The Committee believed that the proposals did not apportion a high enough share of ROYG revenue, and asked that the companies resubmit bids by May 18. As part of an effort to increase the offers, the Committee violated international tendering norms by sharing details of each company's bid with its competitors. The companies have not yet submitted revised bids, but they remain interested in the ACT despite the setbacks. End summary.

**¶2.** (C) Yemen entered a new chapter in the tortuous history of the Aden Container Terminal (ACT) in April, when the ROYG High Tender Committee refused to select any of the three competing companies for the contract. According to Dr. Mohamed Hamood Alwadan, Chairman of Aden Free Zone and a member of the ACT Tender Technical Committee, the Committee believed that bids from Kuwait and Gulf League Company, International Container Terminal Services Incorporated (ICTSI), and Dubai Ports International (DPI), all offered the government too small a revenue share, and decided to postpone an early April deadline for selecting a bid.

**¶3.** (C) Alwadan reported that the ROYG's tender consultant, Rotterdam Management Group (RMG), proposed three options to resolve the stalemate: (1) Re-tender; (2) Negotiate individually with each bidder; or, (3) Initiate a second round of bidding among the three existing bidders. The Tender Committee decided on the third option and sent notification letters to the three bidders to this effect. Contrary to international confidentiality norms, DPI Director Ganesh Raj shared that the letters addressed specific terms, sections, and paragraphs of other bidders, proposals. Alwadan confirmed this move, saying it was intended to drive up the ROYG's share of revenue. Bidders were asked to submit new bids by May 18.

**¶4.** (C) This is but the latest in a long series of false starts for the ACT. The Terminal was originally awarded in March 1999 to the Port of Singapore, however the ROYG cancelled the contract in October 2003 for reasons that remain unclear. Overseas Port Management, Inc. (OPM), in combination with local partners, took over ACT management in November 2003 without a public tender. That contract was set to expire in 2005. In the wake of the 2000 USS Cole and the 2002 V/M Limburg attacks, commercial maritime traffic to the Port of Aden took a dramatic downturn. International observers had high hopes for the rejuvenation of Aden and Yemen's economy in general through a safe and secure Aden Port, container terminal, and free zone. In the past two years, however, corrupt tendering and mismanagement has led international observers and commercial interests to lower their expectations.

**¶5.** (C) When the current tender was announced in Fall 2004, however, Aden still represented a significant investment opportunity for international companies. Seven potential bidders traveled to Aden in January 2005 for a meeting with the tender committee, and all expressed strong interest in bidding. (Note: Other sources reported as many as fifteen participating companies. End note.) However, after studying the tender documents, only three of these companies submitted bids for the tender by the March 2 deadline. According to industry and sector analysts, only two of the remaining three bidders (DPI and ICTSI) are well known in the international port and shipping management community. According to Raj, the Kuwait & Gulf League Company is mainly a cargo handling company that has not operated any port terminals to date and does not have adequate machinery and equipment to operate a cargo terminal.

**¶6.** (C) The tender committee anticipates receiving replies from the bidders by the end of May, intends to sign a contract in July, and to begin operations by October 1. In the meantime, they have negotiated a contract extension with the current operator, OPM, until the new port operator can

take over management. To date, however, none of the three companies has met the new deadline for revised bids. Nonetheless, it appears that ICTSI and DPI will continue with their bids. After a May 2, 2005 annual stockholder's meeting, ICTSI Chairman Enrique Razon told reporters that his company remains interested in bidding on the ACT &because of its outstanding location and (because) the growth prospects there are already strong.<sup>8</sup>

17. (C) Comment. The current delay in the ACT bidding process demonstrates the lack of transparency with which the ROYG approaches the tendering process. For months, the ROYG has insisted that there were at least nine bidders, and that the Tendering Committee was trying to narrow the field. Sources report that there were in fact only three bids (one from a company of questionable capacity), with most of the initial international interest dissipating after close examination of the tender documents. Not satisfied with the ROYG's profit share in the proposals it did receive, the Committee revealed the financial terms of the competitors, bids to each other to pressure them to modify their original bids. This may bring in quick cash for the ROYG, but could harm the ACT and the city of Aden in the long run. The company most willing to pay the ROYG's price is not necessarily the company best able to run an efficient and profitable ACT. At the very least, continued delays and unorthodox procedures undermine faith in the process and reflect badly on Yemen's reputation as a place to do business. End comment.

Krajeski